

Why Centrelink should adopt a light touch when data matching

Written by Helen Hodgson, Associate Professor, Curtin Law School and Curtin Business School, Curtin University

The Commonwealth Ombudsman has [launched an investigation](#) into Centrelink's automated debt-recovery system. The issue had been referred after [numerous complaints](#) that the system, which matches income data reported to Centrelink with that held by the Australian Tax Office, was issuing incorrect debt notices to welfare recipients.

The tax and social security systems can be seen as two sides of the same process – [income support payments](#) are a safety net funded through taxation. Both systems depend on an assessment of the financial resources of the “client”, whether a taxpayer or a recipient of a payment.

Data matching between the two systems could seem a logical step to policymakers and data analysts charged with reducing the budget deficit. But there are several important differences between the tax and social security systems. These include the principles and intentions underlying the two systems, and differences in the data captured.

The ability to pay

The most important difference is to recognise the fundamental purpose of each system, by revisiting the principle of [vertical equity](#) – people earning more should pay more tax.

Our taxation system is built on this “ability to pay” principle. People who report higher levels of taxable income pay progressively higher rates of personal income tax (although this is eroded by the availability of tax concessions including [negative gearing](#) and [capital gains tax discounts](#)).

In contrast, the purpose of income-support payments is to assist people in need at the time when they most need support. The means testing applied in Australia [very effectively targets welfare spending](#) to those with limited financial resources; to the extent that even [business organisations have called for increases](#) as the current rate of payment is inadequate and presents a barrier to employment.

Timing and reconciliation

Why Centrelink should adopt a light touch when data matching

Written by Helen Hodgson, Associate Professor, Curtin Law School and Curtin Business School, Curtin University

The timing of income-support payments is critical for recipients. This is a consequence of the different purpose of the payments. Income-support recipients have, by definition, exhausted their financial reserves, so payments must be assessed and paid on a timely basis to meet basic expenses.

In contrast, although tax payable is [estimated periodically](#) under a “pay as you go” [\(PAYG\) system](#), tax is assessed annually on a final taxable income figure. The amount owed is reconciled against what has already been paid.

The reporting systems implemented by Centrelink do require [periodic income reporting](#), but each payment is assessed and paid fortnightly with no annual reconciliation. To do so would be inconsistent with the underlying principle that income support is a safety net.

Clearly, where a person is in casual work or is unemployed for only part of the year, fortnightly income will not be consistent over the year. Data matching also relies on employers providing accurate employment dates on employment summaries. This is a technicality that does not have significant consequences when calculating taxable income but could deny income-support payments to a claimant.

All of this needs to be taken into account when writing the algorithms that attempt to match the income reported under the two systems.

Calculation and policy differences

Centrelink’s algorithms are based on the data the ATO holds in relation to income, but the calculation of income-support payments is more nuanced. The different roles played by the income and transfer systems cause them to record and highlight different things.

The principle of [horizontal equity](#) requires that the tax and social security systems take into account individual circumstances. Notably, the income tax system is based on the income earned by the individual, after adjustment for work-related and other expenses. Meanwhile, the social security system must also recognise [family circumstances](#).

Why Centrelink should adopt a light touch when data matching

Written by Helen Hodgson, Associate Professor, Curtin Law School and Curtin Business School, Curtin University

through parenting supplements and family tax benefits.

As a result, revenue authorities are more concerned with transactions that may give rise to a tax liability, while welfare authorities also need information about the claimant's circumstances to verify entitlements to benefits.

Automated systems

The ATO has used automated systems [effectively](#) to alert taxpayers to discrepancies in data received by the ATO against what has been returned in income tax returns. Where a discrepancy is identified, taxpayers are given an opportunity to dispute the information prior to the issue of a notice of assessment.

The issue of a notice of assessment is an important procedural step as it crystallises the debt and the formal right to object against the assessment.

In contrast, when Centrelink alleges that an overpayment has been made, the client is issued with a debt notice. Although this can be challenged, the process is far more intimidating – particularly if the recipient does not have an intermediary or agent acting on their behalf to assist in resolving the issue. Many recipients are turning to [welfare rights organisations](#) or [members of parliament](#) for help.

It is worth noting that the Australian Taxation Office has been adopting a [light touch](#) in dealing with tax debts. It is engaging with taxpayers earlier to resolve issues and make it easier to comply with their obligations. Centrelink could learn from this approach.

Learning from our mistakes

The problems inherent in using taxable income to determine periodic social security payments were demonstrated following the introduction of the Family Tax Benefit. In its original form, parents received fortnightly payments based on an estimate of annual income. At the end of the first year, coincidentally in the middle of the 2001 election campaign, income estimates were matched against reported taxable income. Over [500,000 clients](#) were asked to refund overpayments.

Why Centrelink should adopt a light touch when data matching

Written by Helen Hodgson, Associate Professor, Curtin Law School and Curtin Business School, Curtin University

[The 2004 Commonwealth Ombudsman report](#) highlighted the problems in estimating income where earnings are not regular and ongoing. This resulted in a redesign of Family Tax Benefits and was the original reason for the introduction of the annual FTB Supplement. Although technology has improved since 2001, it illustrates the dangers of matching data from two different systems.

One of the benefits of living in Australia is that we have an income safety net for those in most need. This social contract imposes an obligation on recipients to accurately report income and assets to qualify for support; the vast majority of income support recipients comply to the best of their ability.

A properly designed income-matching system can help to identify anomalies, but the information needs to be appropriate and fit for purpose. The current exercise is using information in a way that it was not designed to be applied, without properly adjusting for the technical and policy differences between the tax and social security system. At the very least, Centrelink could learn from the ATO regarding how to engage with the client before issuing debt notices.

Helen Hodgson receives funding from AHURI and the ARC. Helen is a member of the Social Policy Committee and a Director of the National Foundation for Australian Women, and is on the Tax and Superannuation Advisory Panel of ACOSS. Helen was a Member of the WA Legislative Council in WA from 1997 to 2001, elected as an Australian Democrat. She is not a current member of any political party.

Authors: Helen Hodgson, Associate Professor, Curtin Law School and Curtin Business School, Curtin University

Read more <http://theconversation.com/why-centrelink-should-adopt-a-light-touch-when-data-matching-70989>